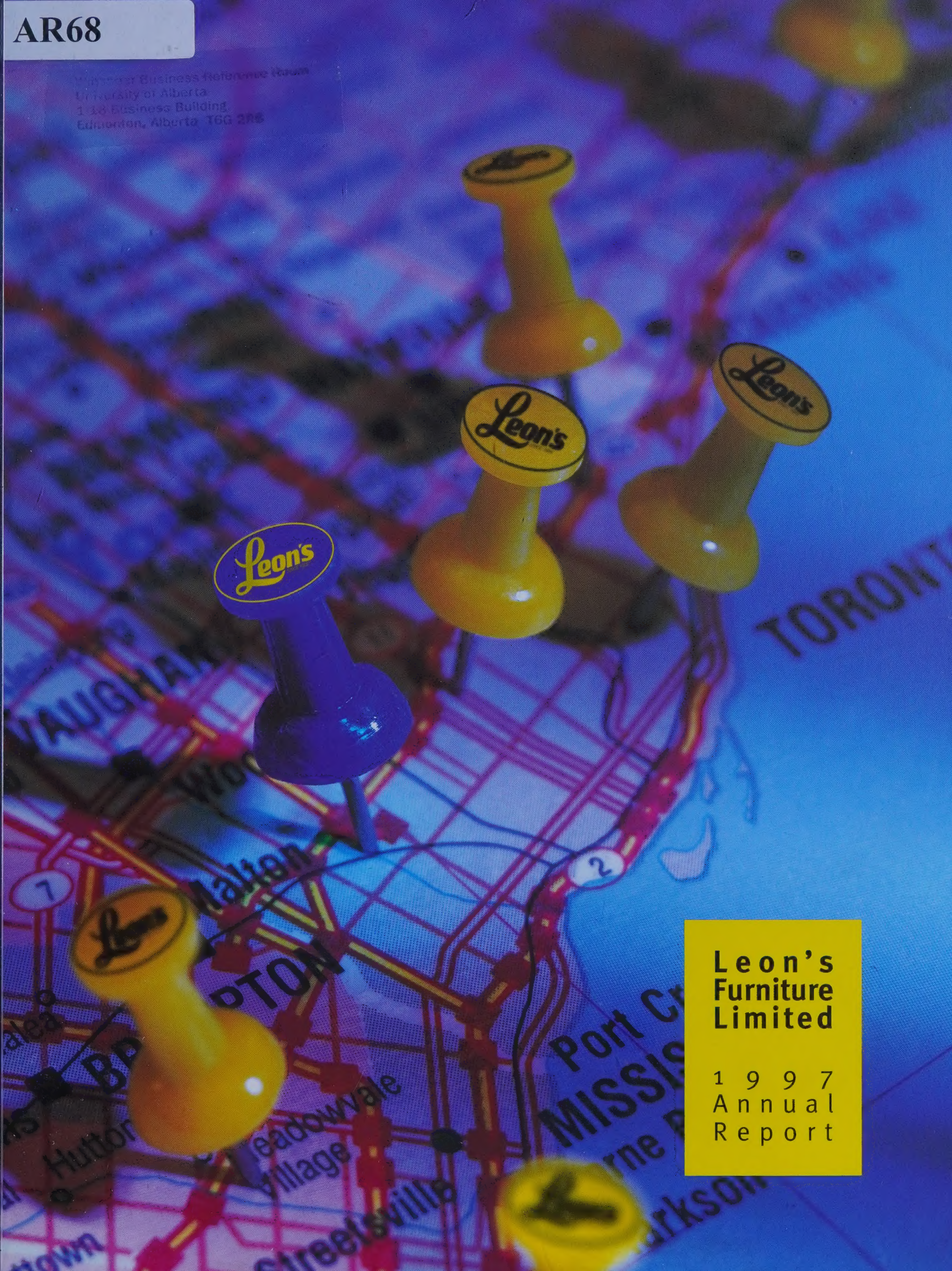


Leon's Furniture Limited

1997 Annual Report

L**eon's Furniture Limited** is one of the most well known retailers in Canada. Since 1909, our Company has worked tirelessly to establish our position as the leader in the field of home furnishings. Our primary mission is to provide Canadians with a vast array of quality furniture, major home appliances, and consumer electronics, with pricing and after-sale service that are second to none.

Generations of Canadians have grown to expect very high standards from all levels of our organization. We believe a critical component of our success is that we do not take those expectations lightly and make every effort to exceed them.

Financial Highlights

($ IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)	1997	1996	% Change
INCOME			
Sales	$ 315,817	$ 289,241	9.2%
Income before income taxes	39,739	32,401	22.6%
Income taxes	18,104	14,747	22.8%
Net income	21,635	17,654	22.6%
Cash flow generated from operations	30,591	32,360	-5.5%
Dividends paid	4,245	13,954	69.6%
PER COMMON SHARE			
Net income	$ 1.08	$ 0.89	21.3%
Cash flow generated from operations	1.53	1.63	-6.1%
Dividends paid	0.22	0.70	-68.6%
Shareholders' equity at year end	7.62	6.73	13.2%

SALES
($ in millions)

CASH FLOW FROM OPERATIONS
($ in millions)

SHAREHOLDERS' EQUITY PER COMMON SHARE

NET INCOME
($ in millions)

To Our Shareholders

We are very pleased to report that for the year ended December 31, 1997, our sales were $315,817,000 ($289,241,000 in 1996), an increase of 9.2% and net income was $21,635,000, $1.08 per common share ($17,654,000, 89¢ per common share in 1996), an increase of 22%. Sales for 1997, including $88,683,000 of sales by franchises, reached $404,000,000 ($373,000,000 in 1996).

The year 1997 was a very successful one for our Company. Record levels were established in both sales and profits. Although the retail environment improved somewhat during the past year, we believe that our results are more a reflection of our continued efforts to increase our market share.

In order to be a successful retailer of any product, a company must recognize that certain intricacies and nuances come into play. Nearly ninety years of success in this specialized field, demonstrates that we have been able to develop a sense for this business. What may appear to be simple to others can, in fact, surprise seasoned merchants, who quickly discover the inherent difficulties of successfully retailing large durable goods.

Our Company welcomes healthy competition. Ten years ago we were a very good retailer. Today, we are a much better retailer. We continue to develop ways and means of improving every aspect of our operation. We have great confidence in our ability to adapt to the ever-changing landscape of Canadian retail. We believe that we have a unique perspective that causes us to continually challenge ourselves to improve.

In early 1997 we successfully liquidated all the inventory located in our two Arizona stores, and closed down the operation.

The new warehouse showrooms, which were opened over the last eighteen months in Ottawa and Mississauga, continue to exceed expectations. We are proceeding with our previously announced expansion program and have every confidence in its potential contributions to our bottom line.

Our Franchise division continues to be a critical component of our overall success. Its presence in the smaller Canadian markets allows the Leon name to be well represented by truly dedicated and professional people. We look forward to expanding this division even further with competent, well-financed entrepreneurs who recognize the tremendous potential of becoming business partners with Leon's.

Our Company continues to rely on the dedication and commitment that is shown by our associates across the Country. We believe the quality of our workforce continues to improve at all levels. We are very proud of our associates and we thank each and every one of them for their efforts over the last year.

The strength of both our financial and human resources have put Leon's in a position to capitalize on any opportunity that may arise.

Anthony Thomas Leon

Anthony T. Leon
CHAIRMAN

Mark Leon

Mark J. Leon
PRESIDENT AND CEO

Five-Year Review

Income Statistics

($ in thousands, except earnings per share)

	1997	1996	1995	1994	1993
Sales	$ 315,817	$ 289,241	$ 282,503	$ 268,693	$ 272,158
Cost of sales	187,680	173,271	169,252	159,918	162,760
Gross profit	128,137	115,970	113,251	108,775	109,398
Operating expenses (net of interest and sundry income)	77,675	74,299	72,383	70,916	71,588
Rent and property taxes	5,207	4,918	4,744	4,796	4,867
Depreciation and amortization	5,483	4,304	4,598	4,516	4,472
Interest on long-term debt	33	48	171	198	232
	88,398	83,569	81,896	80,426	81,159
Income before income taxes	39,739	32,401	31,355	28,349	28,239
Income taxes	18,104	14,747	14,097	11,580	12,051
Net income	$ 21,635	$ 17,654	$ 17,258	$ 16,769	$ 16,188
Common shares outstanding (000's) (weighted average)	19,987	19,861	19,763	19,758	19,758
Earnings per common share	$ 1.08	$ 0.89	$ 0.87	$ 0.85	$ 0.82
Percent annual increase (decrease) in sales	9.2%	2.4%	5.1%	(1.3)%	4.9%
Net income as a percentage of sales	6.9%	6.1%	6.1%	6.2%	5.9%
Dividends declared	$ 4,471	$ 13,952	$ 4,012	$ 3,025	$ 3,118

Balance Sheet Statistics

($ in thousands, except earnings per share)

	1997	1996	1995	1994	1993
Shareholders' equity	$ 152,315	$ 133,804	$ 129,690	$ 116,357	$ 102,310
Total assets	217,641	193,089	177,774	161,856	147,219
Additions to fixed assets	7,155	18,958	7,936	900	2,966
Decrease in long-term debt	(180)	(164)	(1,141)	(375)	(6,871)
Working capital	70,895	54,819	65,808	56,683	38,590
Current ratio	2.1:1	1.9:1	2.4:1	2.3:1	1.9:1
Shareholders' equity per common share	$ 7.62	$ 6.73	$ 6.54	$ 5.89	$ 5.18
Common share price range on the Toronto Stock Exchange					
High	$ 22.00	$ 13.45	$ 13.50	$ 14.00	$ 13.50
Low	$ 12.75	$ 11.50	$ 9.75	$ 10.00	$ 10.50

Our new corporate Home Office is indicative of our Company's unbridled confidence in our future success. The design and layout provides a comfortable yet efficient environment, while at the same time allowing ample room for even further expansion.

Far Left: Our new boardroom is inviting, professional and conducive to open communication.

Left: Our first floor provides sight lines of our central staircase, fabulous fountain, and fully landscaped planter.

The long-term, consistent success of our Company is a reflection of how well we understand the fundamentals of the home furnishing retail market.

With nearly ninety years of successful speciality retailing experience under our belts, our Company is primed and ready for the new millennium.

It is very difficult for any Company to succeed without an intimate knowledge of all facets of its business. The long-term, consistent success of our Company is a reflection of how well we understand the fundamentals of the home furnishing retail market.

In today's retail battlefield, the landscape is strewn with remnants of companies who took their market share for granted and failed to react quickly to the ever-changing attitudes of the consumer. Yet even more casualties result from companies who are under-capitalized, which leaves them susceptible to sustained downturns in the economy.

Leon's has learned to adapt quickly to whatever challenges have come our way. The merchandising and marketing techniques that we have developed over the years have allowed us to have distinct advantages over whatever competitive pressures arise. Our cautious yet calculated approach has enabled us to be in the strongest financial position in the history of the Company.

Left: A panoramic view of our new Home Office, complete with spectacular greenage, as well as a dominating sky roof.

Right: The front entrance of our new office indicatives our size, strength and faith in our future. The fact that it provides an image of success, yet flows with simplistic lines, is synonymous with the Leon's philosophy.

The presence of Leon's Furniture Limited is growing stronger as each year passes. We are market leaders in almost every region of the Country. The construction of new warehouse showrooms in more mature markets will undoubtedly contribute to continued share domination in these areas. The design and layout of our showrooms allow us to offer our customers the largest selection of products in an environment that is clean, fashionable and spacious.

The 1990's in Canadian retail will be historically noted as the "difficult decade," to say the least. Never in the history of Canadian business have there been so many obstacles to overcome.

One of the most daunting tasks that faces every major corporation is the manner in which pertinent information is gathered and how it is utilized. The massive amount of data and statistics that are now available to retailers is a sword that can cut both ways. On one hand, the availability of this new information can provide insights that significantly increase productivity and efficiency. However, if a company becomes too reliant on numbers and loses touch with instinct, experience and common sense, that company will start on a downward spiral, which could lead to disastrous results.

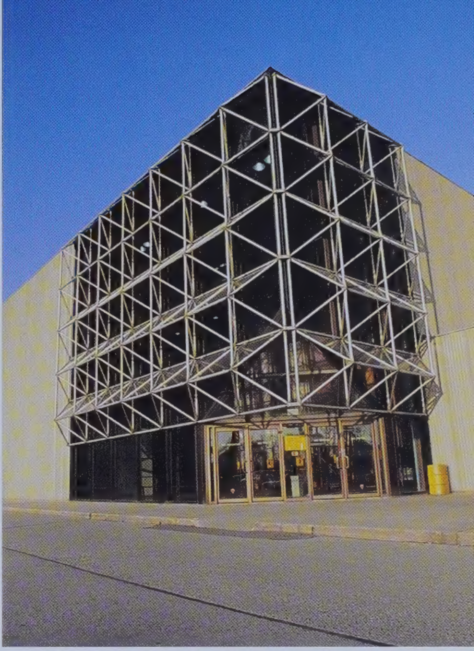
At Leon's, we believe very strongly in our ability to read between the lines. We have never underestimated the importance of getting the details right. The systems and procedures we have in place provide us with accurate and timely readings on critically important areas such as inventory, gross margins and turnover ratios. We have also developed a consumer data base that provides us with significant opportunities in the areas of merchandising and marketing.

Perhaps our greatest strength of all, however, is our desire to uncover and correct any areas of weakness in our organization. Although we believe that we do most things right, we also realize that we can never stop improving. As we approach revenues of half a billion dollars and beyond, even the smallest improvements can add significantly to our bottom line.

We are committed to our search for innovative ways and means of increasing our bottom line. Our shareholders deserve no less.

We believe very strongly in our ability to read between the lines. We have never underestimated the importance of getting the details right.

Right: Our warehouse showrooms stand out to Canadian consumers as destination locations where value, selection and availability continue to be among our strongest reasons for success.



Below: Our newest warehouse showrooms integrate efficiency, strength and beauty, with the latest technological advances in building materials in order to demonstrate the true professionalism of our organization.

Locations

Nationwide

Alberta
Calgary
Edmonton
Hinton*
Medicine Hat*

Saskatchewan
Prince Albert*

Manitoba
Brandon*
Winnipeg

Ontario
Bracebridge*
Burlington
Chatham*
Cornwall*
Huntsville*
Kapuskasing*
Kingston*
Kitchener
London
Mississauga
North Bay*
Orillia*
Ottawa (2)*
Owen Sound*
Peterborough*
Richmond Hill
Sarnia*
Sault Ste. Marie
St. Catharines
Sudbury
Thunder Bay*
Toronto (3)
Trenton*
Welland
Windsor

Quebec
Greenfield Park**
Laval
Ste. Foy**
Vanier**

New Brunswick
Fredericton*
Moncton*
Saint John*

Prince Edward Island
Charlottetown*

Nova Scotia
Dartmouth
Kentville*

NFLD
St. John's*

Franchise premises*
Leased premises**
All other premises are Company owned.

Management's Discussion and Analysis

Results of Operations

General

For the year ended December 31, 1997, sales were $315,817,000 compared to $289,241,000 in 1996, an increase of 9.2%. Net income was $21,635,000 or $1.08 per common share compared to $17,654,000 or $0.89 per common share in 1996, an increase of 22%. Total Leon's sales, including $89,000,000 of sales by franchises, amounted to approximately $404,000,000 [$373,000,000 in 1996].

Overall, we are very satisfied with the sales and profit increase over the past year. We believe that our aggressive approach in the areas of merchandising and marketing allowed us to gain market share in various regions. In addition, we are pleased with the successful opening of two new stores: Mississauga, which opened in late 1996, and Ottawa, in 1997.

We are pleased to report that our overall expenses were basically held in check during 1997. We believe even further efficiencies will appear in 1998 as we continue to adjust to our new computer system.

Franchise Operations

Sales by franchises were $89 million in 1997, an increase of 6% over the previous year. We believe that our corporate team involved with our franchise division is stronger and more committed than ever. At the end of 1997, the Company had a total of 22 franchisees operating 23 franchise stores. We will continue to seek qualified franchisees to join this successful division. As always, we must try to ensure that future potential candidates possess the character, skills and resources necessary to be a member of this successful team.

Foreign Operations

Our Arizona operations were discontinued as of May 1997. Our two U.S. properties are currently for sale which should result in a gain in 1998.

Liquidity and Capital Resources

During the year, the Company's cash and investment position improved by $20.3 million to $83.9 million at December 31, 1997. In addition, in 1997 we opened our new Home Furnishings Superstore in Ottawa. As well, construction of our new Home Furnishings Store in Whitby is expected to be completed by the summer of 1998. We hope to begin construction of a new facility in London, Ontario during 1998. Future expansion costs will be financed from the Company's existing cash resources.

Impact of the 2000 Issue

Certain computer programs and microprocessors use two digits rather than four to define the applicable year. Any computer programs that have date-sensitive software and microprocessors may recognize a date using "00" as the year 1900 rather than the year 2000. While not as potentially damaging as in other industries (such as the high technology and financial services industries), this phenomenon (the "Year 2000 Issue") could cause a disruption of Leon's operations. In conjunction with its software suppliers, Leon's has committed internal resources to address the Year 2000 Issue. Leon's has determined that it will need to either modify or replace portions of its software or microprocessors in order to accurately process dates. The cost of such modifications and replacements is currently not anticipated to have a material adverse effect on the financial condition of Leon's, and Leon's currently expects to complete the material modifications and conversions on a timely basis. However, if such modifications and conversions are not made, or are not completed on a timely basis, the Year 2000 Issue could have a material impact on the operations of Leon's. Leon's has also initiated communications with suppliers to determine the extent to which Leon's may be vulnerable to such parties' failure to remediate their own Year 2000 Issue. There can be no guarantee that the systems of other companies on which Leon's systems rely will be converted on a timely basis, or that a failure to convert by another company, or a conversion that is incompatible with Leon's systems, would not have material adverse effect on Leon's. However, based on its current assessment, management believes that the Year 2000 Issue will not have a material adverse impact on Leon's future results of operation or financial condition, although there can be no assurance that will be the case.

Management's Responsibility for the Financial Statements

The accompanying consolidated financial statements and all information in this annual report are the responsibility of management and have been approved by the Board of Directors.

The accompanying consolidated financial statements have been prepared by management in accordance with generally accepted accounting principles. Financial statements are not precise since they include certain amounts based upon estimates and judgements. When alternative methods exist, management has chosen those it deems to be the most appropriate in the circumstances. The financial information presented elsewhere in this Annual Report is consistent with that in the financial statements.

Leon's Furniture Limited (Leon's) maintains systems of internal accounting and administrative controls of high quality, consistent with reasonable costs. Such systems are designed to provide reasonable assurance that the financial information is relevant and reliable and that Leon's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board and reviews the financial statements and annual report, considers the report of the external auditor; assesses the adequacy of the internal controls of the company, examines the fees and expenses for audit services, and recommends to the Board the independent auditors for appointment by the shareholders. The Committee reports its findings to the Board of Directors for consideration when approving the financial statements for issuance to the shareholders.

These consolidated financial statements have been audited by Ernst & Young, the external auditors, in accordance with generally accepted auditing standards on behalf of the shareholders. Ernst & Young has full and free access to the Audit Committee.

Mark J. Leon

Mark J. Leon
PRESIDENT AND CEO
FEBRUARY 18, 1998

Dominic Scarangella
TREASURER AND CONTROLLER

Auditors' Report

To the Shareholders of Leon's Furniture Limited–Meubles Leon Ltée

We have audited the consolidated balance sheets of Leon's Furniture Limited–Meubles Leon Ltée as at December 31, 1997 and 1996 and the consolidated statements of income and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1997 and 1996 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Ernst & Young

Chartered Accountants
TORONTO, CANADA
FEBRUARY 10, 1998

Consolidated Balance Sheets

As at December 31 ($ in thousands)	1997	1996
Assets		
Current		
Cash and short-term investments	$ 49,187	$ 54,030
Marketable securities	34,787	9,642
Accounts receivable	8,314	8,303
Inventory	43,746	41,834
Total Current Assets	136,034	113,809
Deferred income taxes	3,635	3,105
Fixed assets, net [notes 2 & 3]	77,972	76,175
	$ 217,641	$ 193,089
Liabilities and Shareholders' Equity		
Current		
Accounts payable and accrued liabilities	$ 56,643	$ 51,437
Income taxes payable	3,697	2,779
Customers' deposits	3,429	3,548
Dividends payable	1,272	1,046
Current portion of long-term debt [note 3]	98	180
Total Current Liabilities	65,139	58,990
Long-term debt [note 3]	168	266
Redeemable share liability [note 8]	19	29
Total Liabilities	65,326	59,285
Shareholders' Equity		
Common shares [note 9]	5,638	4,463
Retained earnings	146,084	128,920
Currency translation adjustment	593	421
Total Shareholders' Equity	152,315	133,804
	$ 217,641	$ 193,089

SEE ACCOMPANYING NOTES

ON BEHALF OF THE BOARD:

Anthony Thomas Fox — Director

Mark Leon — Director

Consolidated Statements of Income and Retained Earnings

Years ended December 31 ($ in thousands)(except shares outstanding and earnings per share)	1997	1996
Sales	$ 315,817	$ 289,241
Cost of sales	187,680	173,271
Gross profit	128,137	115,970
Operating expenses (income)		
Salaries and commissions	46,105	43,545
Advertising	20,649	22,408
Depreciation and amortization	5,483	4,304
Rent and property taxes	5,207	4,918
Employee profit-sharing plan	1,339	1,126
Interest on long-term debt	33	48
Other operating expenses	20,051	17,659
Interest income	(2,847)	(3,410)
Other income	(7,622)	(7,029)
	88,398	83,569
Income before income taxes	39,739	32,401
Provision for income taxes [note 4]	18,104	14,747
Net income for the year	21,635	17,654
Retained earnings, beginning of year	128,920	125,218
Dividends declared	(4,471)	(13,952)
Retained earnings, end of year	$ 146,084	$ 128,920
Weighted average number of common shares outstanding		
Basic	19,987,158	19,860,671
Fully diluted	20,622,334	20,623,101
Earnings per share		
Basic	$ 1.08	$ 0.89
Fully diluted	$ 1.05	$ 0.86

See accompanying notes

Consolidated Statements of Cash Flows

Years ended December 31 ($ in thousands)	1997	1996
Operating activities		
Net income for the year	$ 21,635	$ 17,654
Add (deduct) items not involving a current cash payment		
Depreciation and amortization	5,483	4,304
Deferred income taxes	(530)	(287)
Gain on disposal of fixed assets	(79)	(21)
	26,509	21,650
Net change in non-cash working capital balances related to operations [note 7]	4,082	10,710
Cash provided by operating activities	30,591	32,360
Investing activities		
Proceeds on sale of fixed assets	139	32
Increase in marketable securities	(25,145)	(247)
Purchase of fixed assets	(7,155)	(18,958)
Decrease in employee share purchase loans [note 8]	1,194	386
Currency translation adjustment	(13)	33
Cash used in investing activities	(30,980)	(18,754)
Financing activities		
Purchase of convertible, non-voting shares for cancellation [note 8]	(29)	–
Repayment of long-term debt	(180)	(164)
Dividends paid	(4,245)	(13,954)
Cash used in financing activities	(4,454)	(14,118)
Net decrease in cash during the year	(4,843)	(512)
Cash and short-term investments, beginning of year	54,030	54,542
Cash and short-term investments, end of year	$ 49,187	$ 54,030

See accompanying notes

Financial Statements

Notes to Consolidated

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements of Leon's Furniture Limited–Meubles Leon Ltée [the "Company"] have been prepared by management in accordance with accounting principles generally accepted in Canada. The more significant of these accounting policies are summarized as follows:

Principles of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned.

Foreign currency translation

Merchandise imported from the United States is recorded at its equivalent Canadian dollar value upon receipt. United States dollar accounts payable are translated at the year-end exchange rate. Gains and losses resulting from translation of United States dollar accounts payable are included in income.

Assets and liabilities of United States operations are translated into Canadian dollars at the year-end exchange rate. Revenue and expenses are translated at average quarterly rates. Gains or losses resulting from translation of these operations are deferred and included as a separate component in shareholders' equity.

Marketable securities

Marketable securities, which consist primarily of bonds with maturities not exceeding five years, are stated at the lower of cost and market value. Market value approximated cost at December 31, 1997 and 1996.

Inventory

Inventory is valued at the lower of cost, determined on a first-in, first-out basis, and net realizable value less normal profit margin.

Fixed assets

Fixed assets are initially recorded at cost and normal maintenance and repair expenditures are expensed as incurred. Depreciation and amortization are provided over the estimated useful lives of the assets on the following rates and bases:

Fixed assets (continued)

Buildings	5% per annum, straight-line
Equipment	20%–30% per annum, declining balance
Vehicles	30% per annum, declining balance
Computer hardware and software	14% per annum, straight-line
Leasehold improvements	Over the terms of the leases to a maximum of 15 years

Store pre–opening costs

Store pre-opening costs are charged to expense as incurred.

Franchise revenue recognition

Initial franchise fees are recorded as income when the store commences operations as a Company franchise. Expenses associated with the commencement of a specific franchise's operations are deferred and charged to expense when the related franchise fee revenue is recognized. All other expenses associated with franchising are charged to expense when incurred. Continuing fees from franchised stores are recorded in income on an accrual basis.

Income taxes

The Company follows the tax allocation method of providing for income taxes. Under this method, timing differences between reported and taxable income [which occur when revenue and expenses recognized in the accounts in one year are taxed or claimed for tax purposes in another year] result in deferred income taxes.

Fair value of financial instruments

The fair value of financial instruments held by the Company, comprising cash and short-term investments, marketable securities, accounts receivable, accounts payable, customers' deposits, employee share purchase loans, long-term debt and redeemable shares approximate their carrying values in these consolidated financial statements.

2. FIXED ASSETS

Fixed assets consist of the following:

($ IN THOUSANDS)

	Cost	Accumulated depreciation & amortization	1997 Net book value
Land	$ 27,614	$ —	$ 27,614
Buildings	79,799	38,248	41,551
Equipment	11,001	7,268	3,733
Vehicles	8,913	7,577	1,336
Computer hardware and software	5,459	2,309	3,150
Leasehold improvements	4,725	4,137	588
	$ 137,511	$ 59,539	$ 77,972

($ IN THOUSANDS)

	Cost	Accumulated depreciation & amortization	1996 Net book value
Land	$ 26,259	$ —	$ 26,259
Buildings	77,318	34,940	42,378
Equipment	10,996	7,066	3,930
Vehicles	8,164	7,251	913
Computer hardware and software	3,657	1,612	2,045
Leasehold improvements	4,637	3,987	650
	$ 131,031	$ 54,856	$ 76,175

3. LONG-TERM DEBT

Long-term debt at December 31, 1997 consists of a mortgage loan of $266,000 [1996 - $446,000], of which $98,000 [1996 - $180,000] is payable within one year. The loan bears interest at a rate of 9.25% per annum and matures in 1999. Certain land and buildings are pledged as collateral for the loan.

4. PROVISION FOR INCOME TAXES

The Company's provision for income taxes consists of the following:

($ IN THOUSANDS)		1997
Provision based on combined basic Canadian federal and provincial tax rates	$ 17,406	43.8%
Other items	698	1.8
	$ 18,104	45.6%

($ IN THOUSANDS)		1996
Provision based on combined basic Canadian federal and provincial tax rates	$ 14,192	43.8%
Other items	555	1.7
	$ 14,747	45.5%

The Company has, through its U.S. subsidiaries, consolidated tax loss carryforwards for U.S. federal income tax purposes of U.S. $4,466,900 which are available to reduce taxable income of the U.S. subsidiaries as may be earned in future years. The potential tax benefits of carrying forward these losses will not be reflected in income until they are actually realized.

To the extent the losses are not utilized, they expire at the end of the following fiscal years:

	(U.S. $ IN THOUSANDS)
1998	54
1999	1,787
2004	81
2006	261
2009	631
2010	936
2011	717
	4,467

5. COMMITMENTS

The estimated cost to complete construction in progress at one location amounts to approximately $3,500,000 at December 31, 1997 [1996 - $675,000].

Notes to Consolidated Financial Statements

5. COMMITMENTS (CONTINUED)

The Company is obligated under operating leases expiring at varying dates to the year 2003 to future minimum annual rental payments for land and buildings of $4,600,000 [1996 : $1,242,000].

6. FRANCHISE OPERATIONS

At December 31, 1997, a total of twenty-two franchises were in operation representing twenty-three stores. Sales by franchise stores for 1997 amounted to $88,683,000 [1996 : $83,447,000].

7. CONSOLIDATED STATEMENTS OF CASH FLOWS

The net change in non-cash working capital balances related to operations consists of the following:

($ IN THOUSANDS)	1997	1996
Accounts receivable	$ (11)	$ (1,047)
Inventory	(1,912)	419
Accounts payable and accrued liabilities	5,206	11,894
Income taxes payable	918	(759)
Customers' deposits	(119)	203
	$ 4,082	$ 10,710

8. REDEEMABLE SHARE LIABILITY

($ IN THOUSANDS)	1997	1996
AUTHORIZED		
Unlimited convertible, non-voting, series 1990 shares		
Unlimited convertible, non-voting, series 1994 shares		
ISSUED		
504,864 [1996 : 663,691] convertible, non-voting, series 1990 shares [note 9]	$ 3,736	$ 4,911
75,850 [1996 : 78,150] convertible, non-voting, series 1994 shares	966	995
Less employee share purchase loans	(4,683)	(5,877)
	$ 19	$ 29

Under the terms of its Management Share Purchase Plan, the Company advanced non-interest bearing loans to certain of its employees in 1990 and 1994 to allow them to acquire convertible, non-voting, series 1990 shares and series 1994 shares, respectively, in the Company. These loans are repayable through the application against the loans of any dividends on the shares, with any remaining balance repayable on the date the shares are converted to common shares. Each issued and fully paid for series 1990 and 1994 share may be converted into one common share at any time after the fifth anniversary date of the issue of these shares and prior to the tenth anniversary of such issue. Each share may also be redeemed at the option of the holder or by the Company at any time after the fifth anniversary date of the issue of these shares and prior to the tenth anniversary of such issue. The redemption price is equal to the original issue price of the shares adjusted for subsequent subdivisions of shares plus accrued and unpaid dividends. The adjusted average purchase prices of the shares are $7.40 per series 1990 share and $12.73 per series 1994 share. During 1997, the Company purchased and cancelled 2,300 series 1994 shares [1996 : nil] for $29,279 [1996 : nil].

Employee share purchase loans have been netted against the redeemable share liability based upon their terms.

9. COMMON SHARES

The Company's common shares consist of the following:

($ IN THOUSANDS)	1997	1996
AUTHORIZED		
Unlimited common shares		
ISSUED		
20,040,087 [1996 : 19,881,260] common shares	$ 5,638	$ 4,463

During 1997, 158,827 convertible, non-voting, series 1990 shares [1996 : 55,348 shares] were converted into the equivalent common shares with a stated value of $1,175,320 [1996 : $409,575].

10. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 1997 consolidated financial statements.

Corporate and Shareholder Information

Corporate Offices
45 Gordon MacKay Road
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Station "B"
Weston, Ontario
M9L 2R8

Auditors
Ernst & Young
Chartered Accountants
Toronto

Registrar & Transfer Agent
CIBC Mellon Trust Company
Toronto

Listing
Leon's shares are listed on
the Toronto Stock Exchange
Ticker Symbol is LNF

Board of Directors
Anthony T. Leon
Toronto

Edward M. Leon
Thornhill

Joseph M. Leon
Doctor of Medicine
Welland

Mark J. Leon
Toronto

Peter B. Eby
Vice-Chairman
and Director
Nesbitt Burns Inc.
Toronto

Alan J. Lenczner
Barrister, Partner
in Lenczner Slaght
Royce Smith Griffen

T. Iain Ronald
Private Investor

Officers
Anthony T. Leon
Chairman of the Board

Edward M. Leon
Vice-Chairman

Mark J. Leon
President and CEO

Terrence T. Leon
Vice President,
Secretary and CFO

Dominic Scarangella
Treasurer and Controller

Design: Craib Corporate Graphics Inc. Architectural Photography: Lenscape Inc. Studio Photography: Joseph Marranca Photography Printing: Mann Graphics

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